

Internal Revenue Service

District
Director

Department of the Treasury

P.O. Box 2508
Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

EF/EO

Date:

AUG 13 1986

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code of 1954 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120. Contributions to you are not deductible under section 170 of the Code.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

[REDACTED]

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that:

A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within the time specified, this will become our final determination. In that event, appropriate State officials will be notified of this action in accordance with the provisions of section 6104(c) of the Code.

Sincerely yours,

[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
District Director

Enclosures: 3

Year	Number of cases	Percentage of total cases
1980	10	1.0%
1981	15	1.5%
1982	20	2.0%
1983	25	2.5%
1984	30	3.0%
1985	35	3.5%
1986	40	4.0%
1987	45	4.5%
1988	50	5.0%
1989	55	5.5%
1990	60	6.0%
1991	65	6.5%
1992	70	7.0%
1993	75	7.5%
1994	80	8.0%
1995	85	8.5%
1996	90	9.0%
1997	95	9.5%
1998	100	10.0%
1999	105	10.5%
2000	110	11.0%
2001	115	11.5%
2002	120	12.0%
2003	125	12.5%
2004	130	13.0%
2005	135	13.5%
2006	140	14.0%
2007	145	14.5%
2008	150	15.0%
2009	155	15.5%
2010	160	16.0%
2011	165	16.5%
2012	170	17.0%
2013	175	17.5%
2014	180	18.0%
2015	185	18.5%
2016	190	19.0%
2017	195	19.5%
2018	200	20.0%
2019	205	20.5%
2020	210	21.0%
2021	215	21.5%
2022	220	22.0%
2023	225	22.5%
2024	230	23.0%
2025	235	23.5%
2026	240	24.0%
2027	245	24.5%
2028	250	25.0%
2029	255	25.5%
2030	260	26.0%

Your amended Articles of Incorporation state that you are organized exclusively for charitable, religious, educational and scientific purposes, including for such purposes, the making of distributions to organizations that qualify as exempt organizations under section 501(c)(3) of the Internal Revenue Code or corresponding section of any future federal tax code.

You will perform all management services associated with managing multi-family properties, such as tenant selection, property maintenance, rent collection, payment of property bills, etc. Your consultant services will include property management analysis and energy conversion. The fees you will charge for your services will be determined in negotiation with the owners of the property you will manage. You expect your normal management fee will be [redacted] percent of gross receipts and will be above cost.

The public will be made aware of your services through personal contact and selective advertising.

You expect to be financially supported by grants and donations, membership dues, and management fees. Revenues from your management services will be used to defray operating expenses, including wages and miscellaneous operating expenses.

Section 501(c)(3) of the Code provides, in part, for the exemption from Federal income tax of organizations organized and operated exclusively for charitable, religious or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Regulations states that in order to qualify under section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more exempt purposes. If an organization fails to meet either the organizational or operational test, it is not exempt.

Section 1.501(c)(3)-1(c)(1) of the Regulations states that an organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Rev. Rul. 72-369, 1972-2 C.B. 245 describes an organization that was formed to provide managerial and consulting services for nonprofit organizations exempt from Federal income tax under section 501(c)(3) of the Code to improve the administration of their charitable programs. The organization entered into agreements with unrelated nonprofit organizations to furnish managerial and consulting services on a cost basis. The services consisted of writing job descriptions and training manuals, recruiting personnel, constructing organizational charts, and advising organizations on specific methods of operation. Receipts of the organization were from services rendered. Disbursements were for operating expenses.

In Rev. Rul. 72-369 the Internal Revenue Service determined:

An organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. To satisfy the "operational test" the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of section 501(c)(3) of the Code and the applicable regulations.

Providing managerial and consulting services on a regular basis for a fee is trade or business ordinarily carried on for profit. The fact that the services in this case are provided at cost and solely for exempt organizations is not

Accordingly, it is held that the organization's activities are not charitable and therefore the organization does not qualify for exemption from Federal income tax under section 501(c)(3) of the Code.

The requirement that an organization must be organized and operated exclusively for exempt purposes in order to qualify for exempt status poses two tests, which must be independently satisfied.

Based on the information submitted, we have concluded that you do not meet the operational test of section 501(c)(3) of the Code as your activities, property management and consulting, are of the type ordinarily considered a trade or business carried on for profit. Your activities do not fulfill any charitable activity of the type described in section 501(c)(3) of the Code.